C4690-1

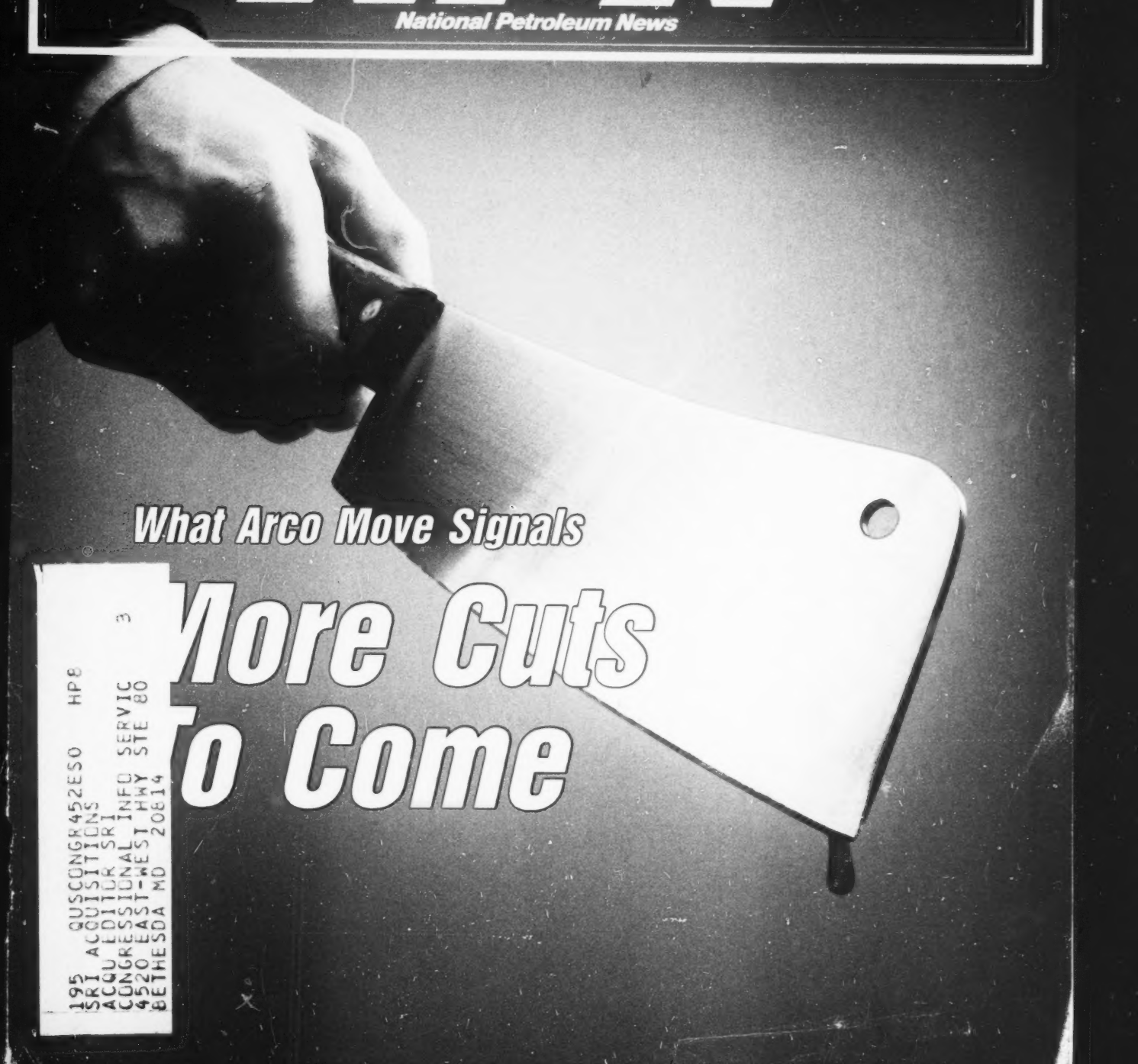
July 1985

$4.50

Why C-Store Owners Like Fast Foods
How the Players in East Keep Changing
Has Unocal Victory Cooled Merger Fever?

NPN

National Petroleum News



What Arco Move Signals

More Cuts To Come

195 GUSCONGR452ESO HP8
SRI ACQUISITIONS
ACQU EDITOR SRI
CONGRESSIONAL INFO SERVIC 3
4520 EAST-WEST HWY STE 80
BETHESDA MD 20814

NATIONAL PETROLEUM NEWS

JULY 1985 VOL. 77 NO. 7

20 Regional News

20 West Coast
Arco data shows lowball pricing may have limits

21 East Coast
Sousa super-jobbership up for sale at $50-million

22 South
Oklahoma jobber panel eyes legislative market relief

24 Midwest
Polished New York carwasher opens Chicago prototype

27 General News

27 PMPA changes 'not needed:' refiner study
28 Texaco report: restructuring to bring more selloffs
28 Indiana congressman offers pro-lead bill
29 OPEC scrambles to hold line on prices
30 Phillips to be 'different,' but still a 'competitor'
30 Congress to get anti-bootlegging bills
30 Mobil begins selling outlets outside prime area
31 Five majors advance POS/EFT programs
32 Florida boots divorcement, OKs below-cost law
32 Congress to see divorcement/open supply bill
32 Power Test changes name to Getty Petroleum Corp.
32 Chevron sells Gulf Canada to office development firm
32 EPA rechecks New York City 'gas,' finds violations down
33 Courts rule on sale-without-tanks and misbranding termination
33 Alaska pipeline overcharge settlement totals $792-million

36 Features

36 Cover Report
More cuts to come
What Arco move signals

46 Convenience Stores
Fast food remains a growth area, but with pitfalls

50 Operations & Equipment
Truckstop POS mess ending? Standardization pushed

63 Legal—Sam Borenkind
Your state next? New York jabs jobbers

64 Tax—Irving Blackman
Installment sales: road to tax savings

Departments

67 About Oil People
11 Ahead of the News
54 C-Store Briefs
15 Catching Up
70 Classified
25 Coming Meetings
12 Late News
8 Letters & Comment
5 Looking Things Over
16 Marketplace
68 News Notes
52 O&E Briefs
56 Product Briefs
16 Trends

In spite of all the heart-wrenching shrinkage that the oil refining and marketing industry has undergone since 1981, the shakeout isn't over by a long shot. Even greater trauma may lie ahead. **Page 36**

Ask any 10 gasoline marketers who operate convenience stores what is the hottest C-store new trend, and the likely answer will be "fast foods." But ask the same group to name the most costly trap an operator can fall into, and again, the likely answer will be fast foods. **Page 46**

Atlantic Richfield's decision to walk away from its past, present and future in the East means that it not only has come full circle, but also that change will continue to be a reflection of the volatility of oil marketing. **Page 41**

• TRENDS

Unocal Cools Merger Fever; Takeovers Tougher Now?

Long after the dust has settled and T. Boone Pickens is remembered mostly as "that raider fellow from Texas," oil men undoubtedly will still be singing the praises of Unocal's Fred Hartley as the man who beat him in a takeover battle and, in so doing, restored a sense of balance and perspective to an industry half-traumatized and half-mesmerized by a never-before-seen acquisition bloodbath.

Equally tough-minded Armand Hammer, the octogenarian chairman of Occidental Petroleum Corp., put his finger on the button with this comment: "Fred Hartley deserves a Nobel Prize for his courage and his determination to ward off an attack by raiders. This will send a signal to all future raiders."

Hartley, 68, is chairman and CEO of Unocal Corp., which Pickens and a group of big-money financiers and Wall Street enthusiasts tried to take over in a series of pressure plays similar to those that worked so well against Gulf Oil, Phillips and others in the past, and which netted him and his associates hundreds of millions of dollars [*NPN*—May '85, p33].

Hartley successfully fought off Pickens' attempts to postpone the company's annual meeting and, after losing in the lower court, won an appellate court decision in Delaware that excluded Pickens' stock from a $72-per-share buyback offer by the company.

With Hartley holding all the trump cards, Pickens was forced to negotiate his way out as best as possible. This time he took a financial drubbing—at least $20-million by his own count and perhaps as much as $100-million to $200-million by other industry and financial-circle calculations. Pickens also is compelled to hold on to two-thirds of the Unocal shares he bought in his $1.2-billion campaign until early 1986. This will tie up his credit line and a half-billion-dollars worth of high-interest money he borrowed to help finance the deal. Outwardly Pickens maintained an optimistic posture, but financial circles considered it a serious defeat.

The settlement prompted the *Wall Street Journal* to headline a follow-up story: "Golden Era for Raiders May Be Waning: Unocal-Mesa Pact, Court Setback Curbing Takeover Fever." The article noted that "Future raiders may have to make offers available to all holders, possibly in cash, and also may have to demonstrate an intention to actually run a company they threaten."

Some sources said that if the Delaware court decision, which affirmed the right of an embattled board to deny benefits to potential raiders, had been on the books before the Phillips and Gulf acquisition fights, the end results might have been different.

All in all, however, it now appears that takeover specialist Pickens has been forced to the sidelines for the time being.

Unocal, as a result of the costly battle with Pickens, is in the process of restructuring itself physically and financially. But it was not hurt as badly as Phillips, which was forced to take aboard an enormous debt load, or as much as Gulf or Getty, which were acquired by white knights Chevron and Texaco.

The end is not yet in sight for oil industry mergers and acquisitions. Some of the second- and third-tier companies with good crude oil reserves or strong marketing positions and facilities could be targets of expansion-minded superiors.

But even these conquests will be much tougher. For example, Amerada Hess and Sun, both of which have been mentioned frequently as possible takeover targets, have changed their bylaws and their structures in such ways as to make them less vulnerable and more expensive to eager suitors. Even Mobil has repositioned itself and is in the process of spinning off properties which might be more harmful than helpful if a challenge should arise.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

APRIL	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.199	$1.119	$1.205	$1.340
Regions:				
Northeast	1.189	1.100	1.178	1.316
North Central	1.205	1.138	1.223	1.360
South	1.180	1.096	1.180	1.332
West	1.228	1.140	1.240	1.382

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	5/31/85	6/1/84
Gasoline (total)	215,039	252,394
Gasoline (unleaded)*	104,770	104,015
Jet Kerosine	34,484	34,437
Distillates	104,596	99,583
Residual	43,135	47,941

**Included in gasoline total.*
Source: American Petroleum Institute.

By Mark Emond
WEST COAST

Arco Data Shows Market Share Gain From Low-Balling May Have Limits

Atlantic Richfield's gasoline market share, which jumped spectacularly after the company dropped its credit card and slashed prices in April 1982, has leveled off and may be declining on the West Coast, the latest data shows.

This conclusion is based mainly on an analysis of first-quarter taxable gasoline sales in California from 1982 to 1985, as compiled by Lundberg Survey, North Hollywood, Calif.

This is the first time a three-year, before-and-after comparison can be made on a quarterly basis. The first quarter of 1985 is the latest quarter available. The first quarter of 1982 was the last three-month period before Arco's new policy took effect.

As the table shows, the market share increase by the first quarter of 1983 was very impressive, and less so but still strongly positive by first-quarter 1984, and then negative a bit by the first quarter of this year.

Whatever the current trend may be, it is surely a remarkable achievement that Arco's market share grew a cool 5.25 percentage points, from 10.94% in the first quarter of 1982 to 16.19% in the same period this year.

But the latest evidence seems to indicate that perhaps a price-cutting campaign of this sort reaches saturation. Growth has been slowing from year to year, and, in fact, turned to a decline the past year, −0.27 of a point by the first quarter of 1985 from 16.46% a year earlier, although Arco was considered very competitive in California throughout the period.

In another report, Arco's market share in the greater Los Angeles area declined to 18.92% in May 1985 from 19.28% a year earlier, according to Whitney Leigh Corp., Marina Del Rey, Calif. Based on a panel of 450-plus stations, Arco's average monthly throughput per station fell to 144,000 gal. in May from 160,000 a year earlier.

California is substantially the West, and Los Angeles is half of California. Arco markets in five western states (California, Oregon, Washington, Arizona, and Nevada), but California represents two-thirds of total taxable gasoline sales in the entire PAD 5. In 1984, California gasoline sales were 11.4-billion gal., compared with 17.1-billion in PAD 5, according to Lundberg Survey.

Next to Arco, Shell shows a gain of 1.48 points during the period. Texaco also has an increase during the period, 1.40 points, mostly in early 1974 because of the acquisition of Mohawk Petroleum in the Getty merger.

Only two majors showed a decline during the period, Mobil and Exxon. Overall, majors picked up 2.07% market share from independents and others, mostly because Mohawk's volume was switched from independent to major.

At Arco, there's been a change of the guard at the vice-presidential level affecting retail, and the company's marketplace tactics bear watching, particularly as the company has announced the intention to do all of its petroleum marketing on the West Coast as soon as it can pull out of the East.

California Gasoline Market Share
1st Quarter 1982-1985

	1982	1983	1984	1985
Arco	10.94%	14.91%	16.46%	16.19%
Chevron	15.13	14.79	15.61	15.33
Shell	12.81	14.37	13.86	14.28
Union	12.44	12.07	12.84	13.09
Mobil	8.62	7.31	7.40	8.36
Texaco	4.74	5.07	7.18	6.14
Exxon	5.25	4.70	5.37	5.22
Majors	78.45	78.30	79.83	80.52
Indep. & other	21.55	21.70	20.17	19.48
Total	100.00	100.00	100.00	100.00

Source: Lundberg Survey

Tosco Stock Rating Up, Sale Prospects Better

By the time this column reaches the street, events involving Tosco Corp., Santa Monica, Calif.-based independent, may have taken place, or may still be waiting to happen, if they will happen at all. In any case, the company's prospects took a turn for the better in late May as perceptions in the stock market changed.

With Tosco shares going for about $1.50, Duff & Phelps, Chicago, a high-powered investment research and consulting service, issued a positive analysis based in part on the fact that on July 1, 1985, a federal court order banning the sale of Tosco's refineries and other assets to a wide list of oil companies would cease to exist.

The existence of the 10-year court order has been known, of course, although perhaps not widely, but the association between it and a possible buyer became more widely understood in investment circles as a result of the Duff & Phelps recommendation.

When the court ordered Phillips in 1975 to divest the properties it had acquired from Tidewater on grounds the acquisition had reduced competition, it forbade resale to a long list of oil companies. That list included just about everybody who might now be able to buy Tosco, which is deeply in debt and, in essence, owned by a group of banks.

Tosco was not on the court's no-no list of oil companies, and decided to buy the assets. Tosco reorganized, pulling out of retail, and tried to do other things to make the system profitable, but to no avail.

A couple of years ago, heavily in debt and sinking deeper daily, the banks restructured the debt to make it possible for Tosco to stay in business for a while, perhaps until better times. Meanwhile, the assets were for sale, but the court order stood as a formidable obstacle: Practically any oil company with the reason and financial strength to take over Tosco was banned from doing so.

Whether the banks decided to hang on at least until July 1, 1985, because they knew something or hoped something, isn't known. But Duff & Phelps took note of the possibility, and in a few days in May, Tosco's languishing shares doubled in value and trading volume increased markedly.

Then, E. F. Hutton raised its recommendation from "don't buy" to "hold" pumping more enthusiasm into the market.

Duff & Phelps felt the stock was a good prospect, from the downside of only $1.50 per-share up to more than $5 a share in the case of a sellout. This is based on total shareholder equity of $120-million against 23.8-million shares.

As for upside potential, Tom Lewis, VP

O&E Briefs

Liability Costs Soar, Companies Drop Out

Panic over the possibility of costly liability claims from underground storage tank leaks continues to cause insurance rates to soar and some potential buyers to back off from purchasing used service stations.

Petroleum equipment distributors are finding, as has been the case with oil jobbers, that their costs for business insurance are soaring out of sight.

According to the Petroleum Equipment Institute's newsletter, its distributor members recently have been quoted insurance renewal costs ranging from two to four times higher than their premiums a year ago. In addition, some members are discovering that insurance underwriters who traditionally have carried their liability coverage are no longer interested in their business.

Some underwriters, according to the PEI newsletter, "have become so skittish about the scope of exposure resulting from pollution that they are withdrawing completely from coverage of any business activity that might cause pollution."

PEI had sought to get Firemen's Fund to provide special coverage for its members, but after a two-month study, Firemen's "elected not to proceed with the program." PEI also studied organizing a captive insurance company but decided "the captive could not hope to generate the millions of dollars on its own to cover potential claim losses."

Some equipment distributors reportedly have started adding an insurance surcharge to each service invoice to help offset the skyrocketing insurance costs. Others are adding a percentage insurance surcharge to their installation quotations, reports the newsletter.

Meanwhile, some potential buyers of old service stations are becoming somewhat wary of possibly acquiring liability problems along with such properties. Gene Horne of Pantry Inc., a Sanford, N.C.-based C-store chain, told a Society of Independent Gasoline Marketers of America seminar recently that his company was now shying away from buying and converting old stations into C-stores for this reason.

EPA Proposes Own Tank Reporting Regs

Owners of underground storage tanks would be required to specify the age, size, type, location and use of all tanks under a regulation proposed in late May by the U.S. Environmental Protection Agency.

The proposal, which is subject to a comment period ending July 15, is less stringent than tank registration plans proposed in a number of states. California, for example, is planning to require tank owners to supply information regarding the thickness of the tank and whether it is lined, double-walled, single-walled or wrapped.

An EPA staffer said the agency proposal is designed "to make it as less cumbersome as possible. Ours is the easiest form."

Congress ordered EPA officials to come up with a tank registration program last year when it passed amendments to the Resource Conservation and Recovery Act (RCRA). Under RCRA, tank owners must file tank forms with states or local officials by May 8, 1986.

The EPA proposal will require two forms: one for existing and future planned tanks, and the other for tanks taken out of operation since Jan. 1, 1974. Owners of tanks no longer in service but which are still located on the grounds are required to provide the following information: the date the tank was taken out of operation; the age of the tank when it was taken out of operation; the size, type and location of the tank; and the type and quantity of substances left stored in the tank.

In most cases, tank owners will be able to answer questions on the EPA forms simply by checking a box, agency officials said.

Private Fleet Survey: Tank Trucks Cost More

If a jobber operates his own fleet of tank trucks, it's probably costing him more per mile of operation than fleet operators in other industries.

According to A.T. Kearney Inc., of Chicago, in its latest private fleet cost survey, done in conjunction with the Private Truck Council of America, the average tank truck cost $1.62 per mile to operate in 1984. That's up from $1.50 per mile in 1983.

	1984	1983
Cost/mile:		
Tank trucks	$1.62	$1.50
Average	$1.32	$1.29
Number/fleet:		
Tank trucks	28	55
Average	37	41
Tractor miles/yr.:		
Tank trucks	87,400	80,200
Average	100,600	97,000
Miles/trip:		
Tank trucks	389	266
Average	921	888
% miles empty:		
Tank trucks	44%	46%
Average	21%	21%
Tractor age (yrs.):		
Tank trucks	3.2	3.8
Average	3.1	3.3

Tank trucks were more expensive to operate on a per-mile basis than other types of trucks mainly because they run more miles empty, the study says. Tank trucks ran about 44% of their mileage empty, while the industry average for empty miles was 21%.

Although the number of tank trucks per fleet dropped from 55 in 1983 to 28 last year, the trucks were on the road more. The survey showed average annual tank truck mileage for 1984 was 87,400, up from 80,200 the year before. NPN

SOFT-max™
Maximizing Computer Potential

Now you can rent your computer software month to month.

- IBM PC Compatible • Training Schools
- Lifeline Support Service
- Totally Integrated Software
- Over 100 Oil Jobber & C-Store Modules
- Send for FREE Catalog & Price List or Call Judy at 1-800-451-4093 (IL 312-323-5666) SOFT-MAX INC. 2625 Butterfield Road Suite 313 W., Oak Brook, IL 60521